

Message Text

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TAGS: PFOR, ECON, TH
SUBJ: EAST ASIAN ECONOMIC POLICY REVIEW

REF: STATE 299030

1. WE HAVE GONE OVER OUR CONTRIBUTIONS TO LAST YEAR'S POLICY REVIEW EXERCISE AND FIND THE RECOMMENDATIONS WE MADE AT THAT TIME REMAIN VALID. EMBASSY WELCOMES OPPORTUNITY TO UPDATE AND AMPLIFY THE VIEWS WE TRANSMITTED IN 77 BANGKOK 8206 FOR FOLLOW-UP REVIEW.

2. POLITICAL: THERE WAS A CHANGE IN THE THAI CABINET IN OCT. 1977, WHEN THE THANIN GOVERNMENT WAS OUSTED BY A MILITARY COUP. THE COUP, HOWEVER, WAS ESSENTIALLY ONLY A SPECIALIZED FORM OF CABINET CRISIS, BROUGHT ON BY THE FACT THAT THE 1976 CONSTITUTION PROVIDED NO MEANS OF REMOVING AN UNPOPLAR PRIME MINISTER WHO HAD LOST HIS BASE OF SUPPORT. NO SIGNIFICANT CHANGES OF INTERNAL OR EXTERNAL POLICY HAVE RESULTED FROM THE ADVENT OF THE NEW GOVERNMENT. THE POLITICAL SYSTEM IS SOMEWHAT MORE OPEN THAN IT WAS UNDER THE OLD GOVERNMENT, AND GENERAL ELECTIONS ARE ANTICIPATED IN 1978 OR EARLY 1979. WE ARE ENCOURAGED BY THE CALIBRE OF MEN APPOINTED TO KEY ECONOMIC MINISTRIES IN THE NEW GOVERNMENT AND CONSIDER THE CHANCES ARE NOW ENHANCED FOR MORE
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ENERGETIC DECISION MAKING. THERE HAS BEEN A MORE INTENSIVE EFFORT MADE SINCE THE CHANGE OF GOVERNMENT TO NORMALIZE RELATIONS WITH THE INDOCHINA COMMUNIST COUNTRIES, AND SOME PROGRESS IN THIS DIRECTION HAS BEEN MADE.

3. INVESTMENT: MAJOR THRUST OF OUR EFFORTS IN ECONOMIC SPHERE OVER NEXT YEAR SHOULD BE CONTINUED SUPPORT OF PRIVATE AMERICAN

COMPANIES WHO WISH TO PARTICIPATE IN DEVELOPMENT OF NATURAL GAS RESOURCES IN GULF OF THAILAND (BANGKOK 1032). AS EMBASSY HAS REPORTED, CRITICAL NEGOTIATIONS BETWEEN U.S. OIL COMPANIES (UNION OIL AND TEXAS-PACIFIC) AND THE RTG TO FIX GAS PRICE AT THE WELL HEAD ARE SCHEDULED FOR END OF THIS MONTH. A SUCCESSFUL BREAKING OF BOTTLENECK IN THESE PROTRACTED NEGOTIATIONS WILL TRIGGER DEVELOPMENT EXPENDITURES BY UNION AND TEXAS-PACIFIC AND ALSO PERMIT RTG TO PROCEED WITH FINANCING AND MANAGEMENT CONTRACTS FOR PIPELINE CONSTRUCTION AND ANCILLARY FACILITIES REQUIRED TO BRING GAS TO THE BANGKOK MARKET. THESE PROJECTS ALONE INVOLVE EXPENDITURES IN NEIGHBORHOOD OF \$1 BILLION AND AFFORD MAJOR OPPORTUNITY FOR AMERICAN BANKS AND COMPANIES. IT SHOULD BE NOTED THAT EXPLORATION WELLS HAVE NOT YET BEEN DRILLED IN THE GULF STRUCTURES CONSIDERED TO BE THE MOST PROMISING BECAUSE THESE STRUCTURES LIE IN WATERS CLAIMED BY CAMBODIA AS WELL AS BY THAILAND.

4. OTHER ATTRACTIVE OPPORTUNITIES LIE AHEAD FOR AMERICAN BUSINESS IN THE MINERAL SECTOR INCLUDING POSSIBLE EXPLOITATION OF ROCK SALT, POTASH AND URANIUM DEPOSITS IN NORTHEAST AND POSSIBLE PARTICIPATION IN THE SODA ASH PROJECT, THE THAI ASEAN PROJECT, WHICH HAS BEEN SURVEYED BY CANADIAN FIRM UNDER AN ADB CONTRACT.

5. OTHER MAJOR PROJECTS OF INTEREST TO AMERICAN COMPANIES INCLUDE THE DEEP WATER PORT AT LAEM CHABANG, A NEW INTERNATIONAL AIRPORT, REFINERY EXPANSION PROJECTS, AND AN IMPRESSIVE ARRAY OF LIMITED OFFICIAL USE

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MAJOR PROJECTS WITHIN CONTEXT OF RTG'S \$31 BILLION FOURTH FIVE YEAR DEVELOPMENT PLAN. (SEE BANGKOK A-39, FEBRUARY 11, 1977 FOR A COMPREHENSIVE LISTING. AN UPDATING OF THE LIST IS BEING PREPARED AND WILL BE COMPLETED IN FEBRUARY.) FOR A CONCISE ASSESSMENT OF THE INVESTMENT CLIMATE SINCE THE INCEPTION OF THE KRIANGSAK GOVERNMENT SEE BANGKOK A-268 OF DECEMBER 10, 1977. DEPARTMENT SHOULD ALSO NOTE MAJOR PROJECTS LIST SUBMITTED UNDER COVER OF ABANGKOK A-39 OF FEBRUARY 11, 1977. THIS LIST IS BEING UPDATED WITH COMPLETION SCHEDULED FOR NEXT MONTH.

6. TRADE: RTG IS CONFRONTED WITH WIDENING TRADE AND PAYMENTS DEFICIT. DUE TO A DROUGHT REDUCING AGRICULTURAL PRODUCTION IN 1977 THE RTG HAS ESTIMATED THAT 1978 EXPORTS PROBABLY CANNOT EXCEED \$3.3 BILLION - DOWN FROM 1977'S \$3.7 BILLION EXPORTS. RICE EXPORTS ARE CONSERVATIVELY TARGETED FOR 1.2 MILLION METRIC TONS WHICH IS WELL BELOW LAST YEAR'S RECORD 2.9 MILLION METRIC TONS. A VIGOROUS EXPORT EXPANSION IS PLANNED IN NON-TRADITIONAL AGRICULTURAL EXPORTS AND NON-AGRICULTURE EXPORTS COUPLED WITH RESTRAINTS ON IMPORTS, PARTICULARLY CONSUMER DURABLES (BANGKOK 653). THE U.S. REMAINS THAILAND'S SECOND LARGEST TRADING PARTNER AFTER JAPAN WITH A STEADY SHARE OF THE IMPORT MARKET APPROACHING 15 PERCENT. LIBERALIZATION OF GSP, SUPPORT OF COMMODITY

AGREEMENTS AND THAI REQUESTS FOR FLEXIBILITY IN THE TEXTILE QUOTA ARE DESIRABLE, AND EVEN MORE IMPORTANT IN VIEW OF THE CURRENT TRADE DEFICITS, TO ENCOURAGE THAI EXPORTS. EXPANSION OF EX-IM AND, HOPEFULLY OPIC, FACILITIES ARE ESSENTIAL TO ALLOW AMERICAN MANUFACTURERS TO COMPETE IN THE THAI MARKET. AS OUR TRENDS REPORTS HAVE CONSISTENTLY STATED, WITH AN ACCELERATION OF THAI DEVELOPMENT MANY OPPORTUNITIES ALSO EXIST FOR AMERICAN SALES OF CONSTRUCTION EQUIPMENT, COMMUNICATIONS EQUIPMENT AND FOOD PROCESSING AND PACKAGING MACHINERY. THAILAND IS STILL A PRE-DOMINANTLY AGRICULTURAL COUNTRY AND AN IMPORTANT EXPORTER OF AGRICULTURAL PRODUCTS IN THE WORLD MARKET. AGRICULTURAL EXPORTS ARE FAIRLY WELL DIVERSIFIED AND THERE IS POTENTIAL FOR SUBSTANTIAL ADDITIONAL GROWTH IN AGRICULTURAL INDUSTRIES. THE GOVERNMENT THROUGH THE BOARD OF INVESTMENT IS INTERESTED IN PROMOTING AGRI-LIMITED OFFICIAL USE

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BUSINESS INVESTMENT AND COMMISSIONED A STUDY BY CHEMONICS INC. FUNDED UNDER AN AID LOAN TO IDENTIFY SPECIFIC AGRI-BUSINESS OPPORTUNITIES. THE STUDY IS BEING COMPLETED IN JANUARY AND THE RESULTS WILL BE AVAILABLE TO INTERESTED U.S. INVESTORS. STUDY COMPLEMENTS NUMBER ONE PRIORITY IN CCP, THE AGRI-BUSINESS EXHIBITION (DEPT 016672).

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7. BILATERAL ECONOMIC DEVELOPMENT ASSISTANCE: AID ADMINISTRATOR JOHN J. GILLIGAN VISITED THAILAND LAST WEEK AND ANNOUNCED AN ADMINISTRATION DECISION TO INCREASE SUBSTANTIALLY THE USAID/

THAILAND PROGRAM. THE BILATERAL PROGRAM IN FY 78 IS EXPECTED TO BE ABOUT \$9 MILLION AND WILL INCREASE TO \$13 TO \$15 MILLION UNDER PROPOSALS TO THE CONGRESS FOR FY 79. THIS TURNAROUND OF AN EARLIER PHASEOUT STRATEGY WILL GIVE A PSYCHOLOGICAL BOOST TO THE THAIS AND GOVERNOR GILLIGAN'S ANNOUNCEMENT HAS BEEN WELL RECEIVED. U.S. ASSISTANCE EVEN AT A \$40 MILLION ANNUAL LEVEL AS THE THAIS PROPOSED AT THE CONSULTATIVE GROUP MEETING LAST YEAR DOES NOT LOOK LARGE WHEN COMPARED TO AGGREGATE AMOUNTS FROM OTHER DONORS AND THAILAND'S OWN DEVELOPMENT BUDGET. NEW COMMITMENTS FROM EXTERNAL DONORS WILL TOTAL ABOUT \$800 MILLION ANNUALLY AND THE THAI HAVE BUDGETED \$1 BILLION OR MORE FOR DEVELOPMENT PROJECTS. MOREOVER, THAILAND'S FOURTH FIVE YEAR PLAN (**60) PUTS HEAVY EMPHASIS ON SOCIAL EQUITY AND RURAL DEVELOPMENT. THESE ARE DIFFICULT AREAS FOR THE THAIS BECAUSE OF THEIR WEAKNESSES IN MANAGEMENT AND INTERMINISTERIAL COORDINATION. THFD THEREFORE FEEL USAID CAN BE PARTICULARLY HELPFUL IN THE CONCEPTION, DESIGN AND IMPLEMENTATION OF PROJECTS. THE THRUST OF THE DEVELOPMENT PLAN AND USAID'S CONCERN WITH BASIC HUMAN NEEDS FOR POOR PEOPLE MATCH CLOSELY. THE ANNOUNCEMENT LAST WEEK BY AID ADMINISTRATOR GILLIGAN REFLECTS THE ADMINISTRATION'S APPROVAL OF A USAID/THAILAND PAPER, PRELIMINARY U.S. ASSISTANCE STRATEGIES LIMITED OFFICIAL USE

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FOR THAILAND. THE STRATEGIES CALL FOR THE U.S. TO ASSIST:
(1) AREA SPECIFIC INTEGRATED RURAL DEVELOPMENT PROJECTS FOR LANDLESS AND MARGINAL FARMERS SUCH AS THOSE IN THE NORTHEAST AND HILLTRIBES IN THE NORTH, (2) FUNCTIONAL ACTIVITIES IN SUPPORT OF (1) ABOVE, (3) PROJECTS TO MAKE ADEQUATE HEALTH, FAMILY PLANNING AND NUTRITION AVAILABLE TO ALL THAIS AND (4) ACTIVITIES WHICH RELATE TO USAID'S GLOBAL DEVELOPMENT CONCERNS SUCH AS WOMEN IN DEVELOPMENT, ENVIRONMENTAL QUALITY# LOW COST ENERGY ALTERNATIVES AND FOOD GRAIN RESERVES. THIS LATTER CATEGORY MIGHT ENABLE SUPPORT FOR THAI EFFORTS AT DECENTRALIZATION AND IMPROVED REGIONAL PLANNING PARTICULARLY IN THE EASTERN SEABORD REGION WHERE MUCH INDUSTRIAL ACTIVITY AND URBANIZATION WILL OCCUR (BANGKOK 1938).

8. ASEAN: ASEAN IS ONE OF THE ELEMENTS OF REGIONAL COOPERATION IN SOUTHEAST ASIA WHICH HAS EVOLVED SLOWLY OVER THE PAST TEN YEARS BUT HAS GAINED INCREASED MOMENTUM SINCE THE FALL OF INDOCHINA. IT IS IN THE U.S. INTEREST TO ENCOURAGE ITS DEVELOPMENT AND TO CULTIVATE A CLLSER RELATIONSHIP WITH THE GROUP BY MEETING THEIR NEEDS IN THE GOVERNMENT AND PRIVATE SECTOR WHERE FEASIBLE. THE PROCESS OF IDENTIFYING AREAS IN WHICH WE CAN HELP WILL NOT BE SWIFT NOR EASY. WE HAVE NOT YET HAD A RESPONSE TO OUR OFFER OF A REGIONAL U.S. ASSISTANCE PROGRAM. MOREOVER, ASEAN PERCEPTIONS OF THEIR NEEDS ARE, INEVITABLY, CONNECTED WITH ISSUES BEING DISCUSSED IN OTHER FORA. THE THAI GOVERNMENT HAS THUS FAR SHOWN CONSIDERABLE UNDERSTANDING OF THE U.S. POSITON AND IS UNDER NO ILLUSIONS THAT WE ARE PREPARED TO INJECT

MASSIVE AID TO ASEAN NOR WOULD THEY NECESSARILY BELIEVE SUCH
ACTION APPROPRIATE. THEY DO, HOWEVER, HOPE THAT A CLOSE WORKING
RELATIONSHIP BETWEEN ASEAN AND THE U.S. WILL EVOLVE DURING THE
NEXT ROUND OF TALKS IN WASHINGTON NEXT JUNE AND THAT OUR GOVERNMENT W
ILL BE SYMPATHETIC AND FORTHCOMING TO THE EXTENT POSSIBLE
IN ASSISTING SELECTED PROJECTS WHILE PROMOTING U.S. PRIVATE
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SECTOR INVESTMENT IN VIABLE ASEAN VENTURES. WHITEHOUSE

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